City of Asheville

North Carolina

Current Golf Industry Trends

- Golf is a Business
- Rounds are Down
- Revenue is Relatively Flat
- Operating Costs are Increasing
- Cash Flow is declining
- Competition is increasing

Challenges Facing Municipalities

•Demands by Golfers

✓Affordable Price Structure

✓Accessibility

✓Course Conditioning

✓Variety of Programs

Challenges Facing Municipalities

- **Pressure to Meet Financial Objectives**

✓Reduce/eliminate subsidies

✓Reserves for repair & replacement

✓Fund ongoing capital improvements

✓Self Sufficient Operation

✓Generate cash flow

Golf Market Impact on Municipalities

- Increased subsidies
- Deferred capital improvements
- Less cash for other amenities and activities

Typical Management Alternatives

- Self-Operation
- Full-Service Management Contract
- Operating Lease
- Concession Agreements

Self-Operation

•Greatest control over golf operations

•Control over all employees, maintenance, policies and procedures, hours of operation, fee schedules, and operating and capital budgets

•All revenues go to pay for operating and maintaining the facilities

Self-Operation

Advantages of Self-Operation

- Simplest option
- Direct Municipal control of the assets
- All revenues belong to the Municipality
- All workers are Municipal employees

Self-Operation

Disadvantages of Self-Operation

- Golf operation may experience fiscal loss and require subsidies from other departments

- Revenues may not cover rapidly increasing costs (particularly labor), especially when golf market is in decline

- Municipality may lack necessary expertise in managing golf facilities, especially in food and beverage area.

Self-Operation

- When revenues and/or operating/capital reserves are down, needed improvements may not be funded (or would at least be deferred)

- Becoming problematic due to increasing expenses and broader fiscal pressures

- Most frequently used model

- Enterprise Fund vs. General Fund Accounting

- Labor expenses and benefits tend to be most problematic

Full-Service Management Contract

- Municipality hires a firm that is charged with all management responsibility

- Municipality funds all capital improvements

- Management firm hires all employees

Full-Service Management Contract

Advantages of Management Contract

- Typically lower operating costs

- Reputable management company typically has experience and expertise in golf facility operations, maintenance, marketing and merchandising

Full-Service Management Contract

Advantages of Management Contract

•Municipality is removed from day-to-day operation in exchange for a payment of a pre-determined management fee (plus a percentage of gross revenues or some other formula); net revenues (if any) are retained by the municipality

•There may be purchasing efficiencies in the pro shop as well as the maintenance area, especially with larger companies

Full-Service Management Contract

Disadvantages of Management Contract

- Less control than with self-operation

- No guaranteed income for the municipality, but a guaranteed income for the management entity; **operating risk remains with the Municipality**

- Municipality responsible for capital improvements

- Municipality needs staff to devote some time to oversight of the golf operation and to ensure that the management company is complying with contract terms

Balance: Risk / Control / Reward

Full Service Management Agreement

- Municipality retains most control
- Term: 3 –10 years, plus extensions/renewals
- Municipality responsible for capital improvements
- Municipality owns economics and reaps rewards
- Risk lies with Municipality

Operating Lease

- Lessee hires and fires all employees and is responsible for the day-to-day operation

- Full economic risk of the operation is shifted from the municipality to the lessee

- Lessee is committed to pay the municipality a fixed rent, pay all operating expenses, supply equipment, and typically provide some capital investment

- Lessee receives most (if not all) of the revenue and pays the municipality either a flat payment or a percentage of revenue, or both

Operating Lease

Advantages of Operating Lease

- Shifts the burden of operational risk to the lessee

- Administrative overhead eliminated

- Municipality relieved of the day-to-day responsibility of maintaining and operating the facilities

- Lease terms could require (or at least incentivize) the lessee to make, or at least contribute to, needed capital improvements

Operating Lease

Disadvantages of Operating Lease

- Least control over the golf course operation, especially pricing and quality
- May directly conflict with the objective of providing an affordable, enjoyable recreation activity for residents
- Could lead to public sector maintenance employees losing their positions

Operating Lease

Disadvantages of Operating Lease

•Municipality would receive less of the upside revenue potential

•Leases typically for a long term, making it difficult to get out of the lease, if displeased with the lessee’s operation

•Unexpected golf market downturns often lead to the lessee seeking to renegotiate terms

Balance: Risk / Control / Reward

Lease Agreement

- Operator given control of property
  - Term: 10 –50 years
  - Capital contribution impacts term
  - Operator owns economics
  - Risk lies with Operator
  - Upside benefits reaped by Operator

Typical Management Alternatives

Policy questions

- What level of control does the City want over operations?
  - Includes fees, staffing, day-to-day management decisions, and quality of experience

- What level of financial risk is the City willing to accept for golf course operations?

- What level of capital investment is the City willing to make in the golf course?